RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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PASSAGES: On September 3, 1929, the Dow topped out at **381.23.** It took 25 years for the Dow to better that high. In 1954 the Dow finally surpassed the 1929 high, and on December 24, 1954, the Dow closed over 400 for the first time, closing at **401.97.** Ten years later the Dow doubled, closing on February 28, 1964 at **800.14.** It took 22 years for the Dow to double again -- on February 6, 1986, the Dow closed at **1600.69.** That same month, on February 27, 1986, the Dow first climbed above 1700, to close at **1713.99.** Six years later (last week on June 1), the Dow doubled again as it climbed above 3400 for the first time -- closing at **3413.21.** When will the Dow double again? In my opinion, not in this century.

You might also remember this -- in each decade since the 1900s there was at least one year in which the Dow was down by a double-digit percentage. The only exception was the decade of the 1980s. And now we've moved into the 1990s. A double-digit decline is overdue-- way overdue.

SENTIMENT: I think it's time to stop all the nonsense and talk about what's really going on. Here's the crux of it -- the American public is strapped for cash. Sindlinger states that in 1989 13% of those he polled complained that their income was dropping. In a recent poll, **66%** of those polled stated that their income is declining, and the wealthier the person the bigger the percentage drop in income (mainly because of declining interest rates).

That's one item, and it's a HUGE one. It's one of the major factors behind the almost universal discontent that has swept the nation. George Bush isn't fooling anyone. Today people KNOW that they're not as well off as they were a few years ago. They BELIEVE that their kids will not lead as good a life as they led. They are CONVINCED that their government has lied to them, tricked them, deceived them. They're MAD as hell, and Bush and Clinton are living symbols of their anger. People are no longer even listening to Bush or Clinton. No, they're too busy talking about Henry Ross Perot. They think they and their country have a chance with Perot. Right or wrong, that's what people are thinking. Note: the government last week admitted that 38% more jobs have been lost during the recession than were previously admitted. No reason for the revision was given.

Listen to this from UCSD political scientist Sam Popkin (he taught polling at Harvard): "People have never been more scared. The Cold War is over, and people are scared that things are worse than they ever were when they were afraid of the war. These aren't welfare recipients we're talking about -- it's up and down the economic scale.

"They're desperate about the next factory moving away, about losing their homes, losing their pensions, not being able to pay for their illnesses. It was so bad in New Hampshire that -- in both parties -- candidates wouldn't even talk about cutbacks. It makes people so nervous they stopped listening. It was that way in surveys everywhere. People running word processing firms are afraid of being homeless. What has to scare Republicans is that George Bush has made some moves this year but they haven't changed his approval ratings. Bush travels to Japan, nothing. The State of the Union speech, nothing. He goes to LA after the riots, zero change -- just another surge for Perot. You mention Bill Clinton, people yawn. About the only thing Americans seem to be thinking about is Ross Perot on one hand and how tough the solutions are going to be on the other."

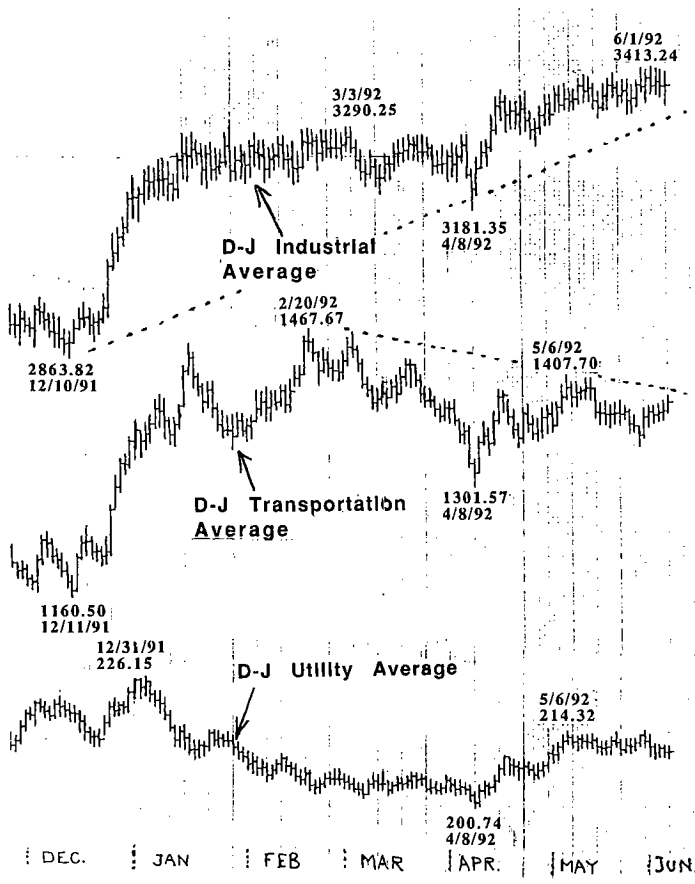
May 29 DJIA 3396.88; PTI 3501; A-D Ratio -9.92
June 5 DJIA 3398.69; PTI 3506; A-D Ratio -9.98
Dow Yield: 2.99%; Dow Price/Earnings: 65.4
Dow 200-day MA: 3151; Dow 30-day MA: 3375
Dow Times Book Value: 2.55; PTI 89-day MA: 3469
Percentage of Undervalued Blue-chips: 10%

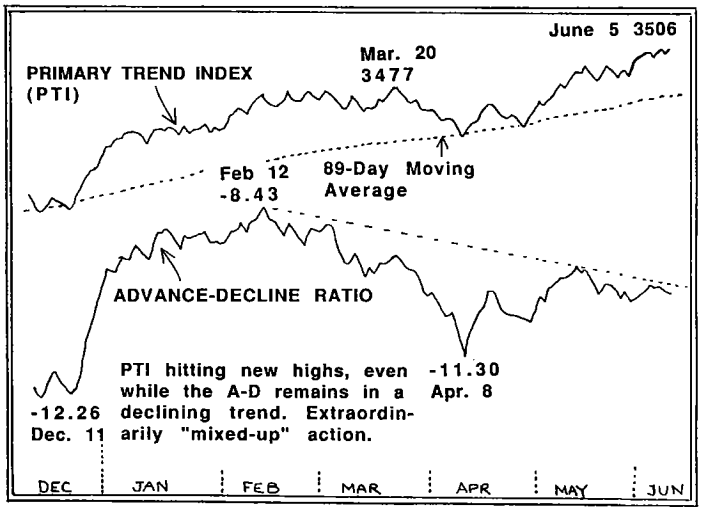
Russell comment: From letters across the land I hear the same thing. That's the prevailing sentiment in America -- in a nutshell.

INVESTMENT SENTIMENT: The American public is in a frenzy for income. People have seen the returns collapse on their CDs, their T-bills, and their money market funds. Older Americans, who depend on the income from their savings to keep them going, are depressed and frightened.

What to do? What can you do? Better buy stocks or bonds. Doesn't the history of the stock market tell you that if you buy good stocks and hold them you're going to come out way ahead? "Cash is trash -- and stocks and bonds are the way to go. Excuse me, I'm trying to get my broker on the phone."

In a report I just received, Morry Markovitz (50 B'way, NYC 10004) writes about the time when you really should have been buying stocks and bonds. "Back in the very early '80s, interest rates ran up to the moon. People who'd 'cleverly' locked in 10% bond yields for 30 years kicked themselves when they saw 12% a few months later. The cleverer people who had been patient and





smugly took 12%, were destined to be quickly chagrined at the sight of 13%, 14% and 15% as rates zoomed up almost daily. The yield curve was inverted then -- short rates were above long rates. The DJIA was around 800-850 and the 20-year bond (futures) were priced at 60 or below. And then, right at the bottom, the worst possible wrong idea became "common wisdom" as investors finally 'learned' that it was a mistake to lock in yields. 'If you wait, you'll do better.' Why touch stocks with a 10-foot pole when bonds are yielding 15 1/2 %? And why touch bonds when cash is yielding even more, at 16%, and you've got your liquidity too? Cash was the best of both worlds -- high yield and liquidity too -- it was an irresistible combination with an irrefutable argument. So as rates approached their peak, the common topic of conversation became gossip-swapping about bank CD rates, and everybody rushed to find another bank with enough yield to allow them to close out their current CD early, pay the penalty, and still come out ahead. In short, it was a frenzied rush to cash, right at the decade's peak in rates (and you had to be a lunatic to even think of buying stocks or bonds)."

Russell comment: So we've come full circle. Today, "Cash is trash. And gold is worse than trash. Hey, friend, load up with stocks yielding 2% or 3% and selling at 35 to 50 times earnings -- and if you still need income, then go out and buy a bond fund yielding a taxable 5.75% or 6%."

THE MARKET: In a Nutshell: This is as confused a market as any I've seen. It's a market under subtle distribution. And I'll say again that it reminds me more than anything else of the 1972 situation. That was a market in which breadth was poor all year, and yet the Dow was strong all year (yes, and market students were puzzled all year). History tells us that a strong Dow ultimately follows poor breadth to the downside, rather than poor breadth finally turning strong and following a strong Dow to the upside.

Well, breadth has been poor during 1992, while the Dow has remained stubbornly strong. So is 1992 going to be a rough copy of 1972? My guess -- probably. But it's still going to be a matter of timing.

As an aside, the Dow itself has been a mixed bag with 10 Dow stocks supplying the real strength. They are Allied-Signal, Caterpillar, GM, Union Carbide, Disney, Goodyear, Alcoa, McDonald's, Sears and DuPont. 10 Dow stocks are actually down for the year including Westinghouse, Morgan, Kodak, Boeing and Merck.

Here's what many "sophisticated" analysts are expecting -- some kind of stock market decline to a July low, then a summer rally, maybe taking the Dow up to a late-fall peak. A major market top in the fall, and then around the first of the year the beginning of a big bear market.

This is based on a number of factors, which include: (1) A Dow that wants to hold or rally -- 22 record Dow highs so far in 1992. (2) A severely overvalued market, a market that has "stayed too high too long." (3) Numerous divergences and non-confirmations -- these include the non-confirming Transportation Average, the topped-out Utility Average and the badly-lagging A-D ratio. (4) A dramatic drop-off in daily new highs. (5) A decline in average daily volume. (6) Generally erratic market action, such as the Dow being up 15 points one day, down 15 the next.

I've written before about the remarkable "schizophrenic split" between the public's stubborn bullishness towards the stock market on the one hand, and the public's pessimism regarding the economy and Washington on the other hand. As far as I'm concerned (I wrote about this in the last Letter), the US economic "upturn" is nothing to write home about. It's a feeble upturn, and I must admit I'm skeptical about the upbeat government statistics that are all pointing to an "end of the recession." *Sindlinger's* work suggests that the government's figures are too optimistic or even fudged -- certainly the government statistics don't look anything like *Sindlinger's* own (and I happen to believe *Sindlinger*).

Despite lay-offs, high unemployment and sluggish business, the public has remained remarkably bullish on the market. The public has been buying up IPOs in companies with no earnings and in many cases no prospects of earnings. Most recently the public has inhaled over $2 billion worth of additional General Motors stock. Since last December the public has gobbled up equity mutual funds at the record rate of $6 to $8 billion a month while at the same time they have been buying bond funds at the rate of $7 billion or more a month. Mutual fund managers say they have never seen anything like it. The cash has been pouring in faster than the managers can spend it.

I'm tempted to say that in markets like this, you don't predict, you just watch and scratch your head and say, "Oh yeah, I've seen this before, it kinda reminds me of 1972 or 1965 or 1987."

At the beginning of the year I predicted that 1992 would be "The Year of Surprises," and I'll stick to that prediction. Yes, we've had a few surprises so far. But even after the big bear market in Japan, the LA riots and the rise of Henry Ross Perot, I will state that, "This is just the beginning, there are going to be a lot more surprises to come."

Primary Trend Index (PTI): I dunno, maybe each Dow Theory Letter should simply consist of a chart of my Primary Trend Index (PTI) with a brief discussion of whether its pointing up or down, and -- and, -- and that's about all.

This is a market of price movement and action rather than values, and Wall Street doesn't seem to care about anything else. Giant Olympia & York can go bankrupt, Los Angeles can burn to the ground, GM can dilute its equity with an additional two billion dollars worth of shares, the price of oil can surge, bonds can top out, nothing bothers the Dow - "it just seems to want to go higher."

As for my PTI, this index turned bullish in January 1991, and it has remained in the bullish mode ever since. The PTI is constructed to deal strictly with market action. It couldn't care less about news, sentiment, yields, short interest, interest rates, or anything not having to do with actual price movement. That seems to be the ticket for success here in 1992 -- certainly few other indicators have done such an excellent job of pointing the way for this market.

On May 28 both the Dow and the PTI rose to record highs. And this occurred in a market that was filled with ambiguities, yet the PTI totally ignored them. The fact is that the Transports have been diverging (failing repeatedly to confirm), the advance-decline ratio has been diverging, volume has been declining, and daily new highs on the NYSE topped out months ago.

But the PTI isn't bothered or halted by any single indicator, it takes a measure of the balance of market action indicators, and that

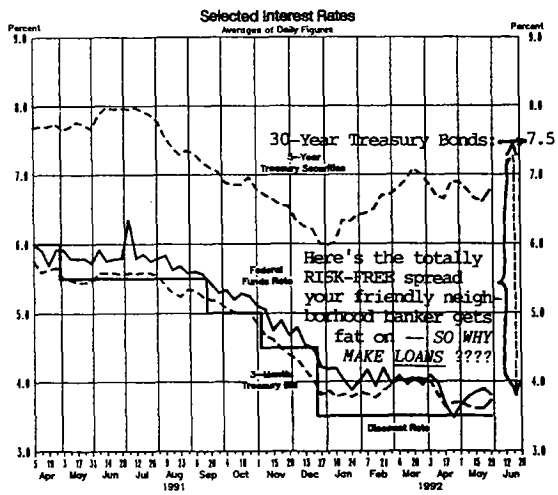
balance has been pointing higher. Or let me put it this way --every time the PTI turns down and looks as if it's going to turn bearish, it touches its moving average, turns up, and promptly rallies to new highs.

That's telling me that the bull trend will remain in force until it simply dies of exhaustion -- at which time the market will topple over and a bear market will start. But what day or what week or month that will happen -- there isn't anyone alive who's got the answer to that one.

Conclusion: No question about it, the market is looking tired. But despite divergences, non-confirmations or anything else, this market won't turn down until the PTI reverses to a decisively bearish pattern. So far, that hasn't occurred.

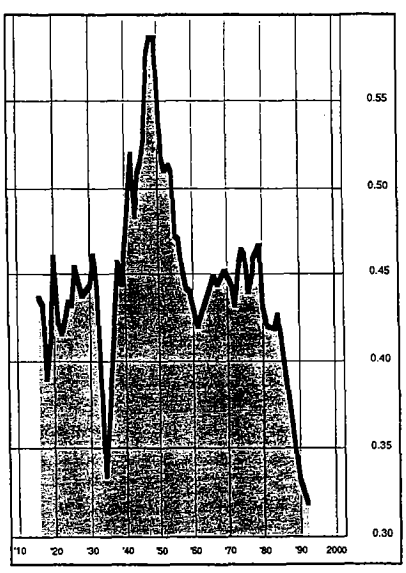
Analysts love to denigrate the Dow. In fact, some analysts seem to thrive on telling us that "the Dow is not the market." Yeah, we knew that, but these guys should really be kinder to the Dow. After all, it's only the Dow that's been holding up this market.

Regardless of what you hear, the broad money supply (year-to-year percentages for M-3 and M-4) is not growing. The banks are not lending, and the public is not borrowing. Why aren't the banks lending? This chart from my good friend, Kennedy Gammage (*The Richland Report,* Box 22, La Jolla, CA 92038) shows the yield spread between the 30-year T-bond and the 91-day T-bill. Ken notes that this is the "risk-free" spread the banks now capture as they liquefy (courtesy of the Fed). "So why make loans?" asks Ken. Answer, of course, it that the banks are not making them.


Selected Interest Rates
Averages of Daily Figures
Percent
30-Year Treasury Bonds
7.5
Here's the totally RISK-FREE spread your friendly neighborhood banker gets fat on — SO WHY MAKE LOANS ????
Federal Funds Rate
Discount Rate
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun
1991
1992

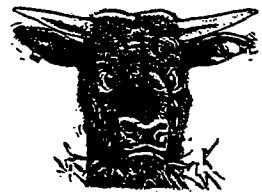
No growth in the money supply? The public has been cashing in its CDs and time deposits and switching the money into their checking accounts (M-1). This doesn't change M-2 or M-3, because the money continues to be counted in the broader measures. But M-1 booms, and everybody thinks the money supply is rising. It isn't.

M2 Money Stock Divided by Debt



This shocking chart [courtesy of the *Money-Forecast Letter* -- (800) 542-5018] shows the M-2 money supply divided by the nation's total debt. What this chart shows is the ability of the US to handle its debt, and what we see here is the worst plunge since the 1930s. It takes a rapidly expanding amount of money to "float" the huge and rising debt of the US. The needed expansion in the money supply isn't materializing. Thus, the pressure of the total debt is becoming more and more onerous. In my opinion, it's "the hidden force" behind this persistent recession.

INVESTMENT POSITION: Earlier in this Letter I described how 1980-82 was a great time to load up with stocks and bonds, although of course, the public was doing the exact opposite. Subsequent years only served to demonstrate how wrong the public had been.



Now I believe that we've come full circle. Cash and liquidity are going to look very good a few years from now -- but the public won't have any. They'll either be strapped with debt, or loaded with stocks and bonds that are showing losses. Let me put it this way, when the public is frenzied to get into an investment area, you can be pretty sure that they're both late and wrong. That, in a nutshell, is what I think of the public's current craze for stocks and bonds.

Basically, I feel that this is a fine time to get liquid. I also think it is time to look over the gold shares. Gold acts as if it's bottomed out, the gold shares are looking better, and the sentiment towards gold is still extremely bearish. American Barrick has been the star in the gold stock area. I like the Financial Group's gold fund -- (800) 525 8085.

The ratio of T-bonds to gold has turned up in favor of gold. This is a very sensitive barometer of forthcoming inflation. Also, the *Journal of Commerce's* Industrial Price Index has moved up from a January low of just above 93 to a May level of just under 99. This is another early indication of inflation. The Fed's desperate efforts to re-inflate the economy may be starting to take hold.

I've known Jim Benham since he started his first fund (an all-government money market fund) in 1974, and I've always liked Jim and the work he's done. He's conservative and he knows the markets. The Benham group already manages billions in funds, and they've now joined with J.P. Morgan Investment Management to start the Benham European Bond Fund. I checked last week and the fund yields 8.33%. It's a good yield today, and just as important, it provides a hedge against the dollar. The fund holds bonds from nine European countries plus a small investment in ECUs (largest holdings in Germany, France, UK, Netherlands). I'm putting money into this fund. I feel it's an intelligent diversification move, and I recommend it. Call -- (800) 321-8321.

NOTES & QUOTES: Perot: There are seven living presidential campaign managers, and Perot hired two of them, and two of the best. Furthermore, the fact that Ed Rollins and Hamilton Jordan both want to work for Perot must be considered a coup. Both men say they will be taking pay cuts to work for Perot.

The fierceness with which the newspapers (particularly the *NY Times*) and columnists are daily attacking Perot is almost comical in its intensity. What are they all so afraid of? They claim they are afraid that Perot "will be a dictator" or Perot will "not know how to compromise." Meanwhile, the more the analysts warn, the more the public is intrigued with Perot. The public lumps the broadcasters and newspapers together as simply part of the establishment. And if the establishment doesn't want Perot, well, that makes him all the more attractive.

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In a piece entitled "Will George Bush Unravel?," the London *Economist* (May 30) seriously questions whether Bush wants another four years in office. "Does a 67-year old man with Graves disease really want to fight a bitter six-month campaign?" asks the *Economist.* They add, "Ever since the president returned from his ill-starred trip to Asia in January, he has done little that was not either inept or strictly by-the-book."

Meanwhile, George Condon (*Copley News Service*) writes, "The most startling political development of the year -- the depth of the political woes of President Bush -- is only now starting to be grasped . . . The real message from the national polls . . . is that Mr. Bush is in more trouble than any incumbent president since Howard Taft in 1912."

Russell comment: Personally, I think Bush is ambivalent about spending another four years in the White House. He's tired, he looks tired, he sounds cranky, and I'm beginning to think that, consciously or unconsciously, he's acting as if he's had enough. I think the main pressure for Bush to stay the course comes from the party, not from the president.

* *

The Coming Big Debate: Let's say no one of the three candidates gets the necessary 270 electoral votes. The issue is tossed into the House. The House's Democratic majority votes Clinton as president. The incredible fact is that if the election goes to the House, each state, regardless of its population, has only one vote. This puts Vermont, with only one Congressman, on a par with California, which has 52. This could mean that the 26 least populous states with only 16% of the national population could decide who will be president. Furthermore, nobody knows what House rule tells a state which way to vote. What about a state like Maine, which has one Democratic and one Republican congressman? Russell comment: The president should be elected by popular vote. The electoral college was a concession to conservatives, who didn't trust the majority to elect the president.

This from the *NY Times* (May 24). John Milius was on the phone with Clint Eastwood, making a pitch, "Perot wins the popular vote, but the electoral college throws it out and tries to impose Clinton, so the American people go crazy and take to the streets with guns. The Government sends in the Marines, but the Marines won't fire on Americans. We have a real revolution in this country at last." Milius, you remember, wrote the screenplay for "Dirty Harry," and "Magnum Force." Milius is an ardent Perot supporter.

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According to the June 3 *NY Times,* Senator Robert Byrd (a master vote counter) believes that the so-called balanced budget amendment will be killed by the Senate, either by a filibuster or simply by vote of the Senate. Russell comment: I don't doubt this at all. Once Washington grasped the pain involved in even beginning to balance the budget, their ardor cooled. Maybe the crux of it is this: the government now pays out one trillion dollars a year in entitlements. In order to balance the budget, Congress would have to dig into that trillion dollars. The mere thought of that sends chills through their souls. Will the budget be balanced by Washington or will the whole budget situation end up in a massive crisis? I advise you to bet on the latter.

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Merrill Lynch's William Sterling calls it "the quiet crash of the dollar." The dollar has been weak against the European currencies, but now it's weak even against many minor currencies. Against the Singapore dollar the US dollar is down 12%, it's down 17% against the Hong Kong dollar, down 21% against the Korean wan, and 35% against the Mexican peso. One reason is low US interest rates against higher rates in the above countries.

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Land Ahoy! Ted Turner and wife Jane must like land. They just bought 300,000 acres outside of Truth or Consequences, NM. I guess they'll just sit on it and watch the US population grow. Well, not exactly, Turner wants to raise buffalo.

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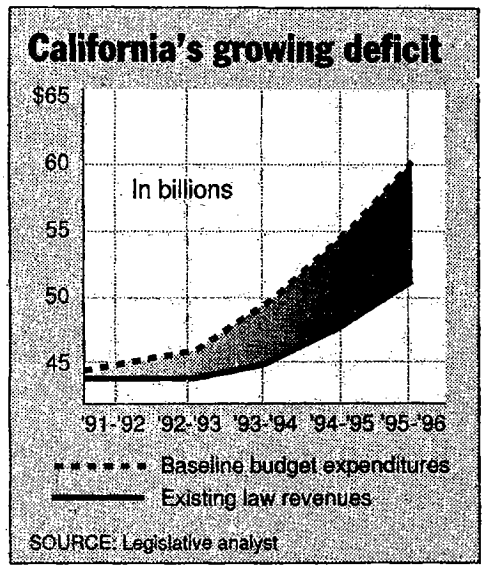
Got a call last week from an old friend. He left California, bought 750 acres in Colorado. He told me, "Twenty years ago when I'd tell somebody I lived in California you could see the envy in their eyes. Last few years when I would admit that I lived in California I could see pity in their eyes. The dream has died." I told him something else has died -- California's finances. Here's a graph showing the state of California's surplus or shortfall. Honest, there's nothing much left to tax in this state that they haven't already taxed. The graph is telling us that huge budget cuts are coming up.



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Subscriber R.L. in Sioux Fall, SD, writes, "You missed the best state to live and work in when you passed S. Dakota. (1) No state income tax. (2) No gangs. (3) Lots of Colt 45s - but most or all unloaded in gun cases. (4) Clean air, water, people."

Russell comment: I believe it. The guys from *Growth Fund Guide* (Box 6600, Rapid City, SD 57709) moved from CA to SD a few years ago. One of them wrote me that he could buy a new house in SD every other year with the money he saves in state taxes. I believe it.

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Speaking of the *Guide*, this is from the current issue: "The US is now in the midst of the wildest spending spree the world has ever known . . . Current trends will push the debt over $10 trillion by the year 2000 . . . Why not just pay off our debt and be done with the problem? If we paid back $500 million per day on our nation's debt, how long do you think it would take to pay it off? 20 years? 100 years? 1000 years? How about 10,000 years? The brief answer is that if $500 million per day were paid off on the debt, it would never be paid off because we are already paying more than that in interest on it. With the average debt service interest rate now at a low 5%, it takes about $548 million per day or $200 billion per year to pay the interest on a $4 trillion debt."

More Russell comments: I've been warning about our compounding debt for years, and the situation is just beginning to hit hard. To understand the danger of this situation takes a thorough understanding of the power of compounding. I've said it before, but I'll repeat it -- compounding through time will make anyone rich. BUT negative compounding (accumulating and compounding debt) will break any man, crush any currency, bankrupt any nation. And the US is on the steep path of negative debt compounding.

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If fare cutting drives TWA out of business (TWA filed for Chapter II in January), the Pension Benefit Guarantee Corp. (a government agency) says that it will require Carl Icahn to make good on the massive unfunded pension liabilities. The agency estimates the liabilities (are you ready for this) at around $1.1 billion. The normally shrewd Icahn took TWA private (while pulling $440 million out it) and now owns 90% of the company. Because Icahn owns over 80% of the company, any other company in which he has an 80% control is deemed "company controlled" and could be tapped to make good on TWA's shortfall.

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Futures magazine (June) states that the three biggest market events of the last 30 years were: (1) the meteoric 1973 rise in soybeans from $3.50 to $12.90, (2) the incredible 1979-80 rise in precious metals, and (3) the 1987 stock market crash. What's the fascination with commodity trading? Here's one answer: Mike Crane of Lehman Brothers in Chicago relates, "I know a local in the pit who was trading Eurodollars the day after the crash. The market was called to open 50 to 75 points better, but Salomon had a big order

to enter on the opening, and the market opened 300 points better. The traders sold 1,000 contracts at 300 higher and bought them back less than a minute later 150 points lower than that -- a $3 million gain in 30 seconds. He retired after that."

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When I was a kid, Macy's was THE store, and the Macy-Gimbel rivalry was a staple of the department store business. Many years later Macy's expanded to the suburbs, then it went bankrupt, then it was a leveraged buyout, then it was in trouble again. Now Macy's has made a decision that is going to hit the New York area hard. Macy's announced that it is closing eight of its stores, four in the New York area. Alexander's closed 11 stores in the New York area a few weeks ago -- this makes a total of 15 department stores closing in NY within a few months -- with thousands of jobs being lost.

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Your tax dollars and where they go. From the AP -- Of the government's $29 billion investment in the Strategic Defense Initiative, at least $7.7 billion were wasted in projects that were cast aside as unneeded, unworkable or unaffordable. The collapse of these efforts, however, has not slowed down SDI spending, which will consume $4.15 billion this year, the biggest item in the defense budget. It's the costliest program in US history, but its investment records have largely escaped public scrutiny. Until recently, Congress has shown little interest in where the money has gone.

Famed columnist George Will writes, "Nowadays government permeates life, and there is no longer even a nod towards the old idea of limited Congressional powers to spend." Of the constitutional amendment for a balanced budget, Will writes, "Many opponents simply assert that 'it won't work.' But no one claims the current attempt to limit government is 'working.' And the most fervid opponents of the amendment (public employees, organizations, lobbies for the elderly, cities and other grasping interests) are not fervid because they fear the amendment might be ineffectual. The intensity of their opposition testifies to their belief that the amendment would work too well to limit government."

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The fashion magazines -- *Elle, Bazaar, Vogue, Mirabella* -- are in a vicious fight for survival, and the words on the cover provide mute testimony to that fight. Popular cover words are "Diet," "Sex," "Fast," "Free," "New," "You," and the ever-present "Hot."

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Harvard economist Lester Thurow writes that the world is divided into three economic areas, the US and the Americas, Japan and Asia, and the new Europe. He believes that Europe will emerge as the world's strongest economy. I'm not sure that I agree.

Consider this: in less than five years Japan will succeed the US as the world's leading manufacturing power. And, says Kenneth Courtis, the Deutsche Bank's chief economist, writing from Tokyo, just after the year 2000, Japan will become the world's leading economic power. He says that the current Japanese recession will not change that. In fact, he says that the government sponsored recession is sending thousands of small businesses into bankruptcy, allowing "the big *keiretsu* companies to move in and pick up the pieces." Courtis presented some eye-opening statistics: Japan now invests 20% of its GNP in new plant and equipment, twice the US percentage. Last year that worked out to $5,320 per capita in Japan as against $2,177 in the US. "On an inflation-adjusted basis, that means that Japan out-invested the US by $440 billion," said Mr. Courtis. That's a gap it could take a decade to close, even if the US decided to try to catch up. He adds that Japan has grown better at deploying state-of-the-art equipment "faster and more widely than the US" and that Japan's leading corporations are better performers "in an ever larger number of critical industries of the future." Courtis states that if the US responds to this ominous trend with Gephardt-style trade quotas on Japanese imports, it will do nothing to make America more competitive. Courtis states that in the past six years Japan has increased the size of its economy by half through a shrewd investment policy.

Russell comment: One of the US's biggest problems is a shortage of savings. The massive US budget deficits now absorb 80% to 90% of the US savings pool. To reverse this, tremendous sacrifices will have to be made by Americans. Frankly, I don't know whether this country, awash in its desire for entitlements and rights, is ready to make the sacrifices. I think the sacrifices are really what Ross Perot is talking about -- or will be talking about. Will the nation listen? I really don't know. I do know one thing, however -- neither Clinton nor Bush is even talking about the problems and what needs to be done.

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Steve Briese [*The Bullish Review* -- (612) 423-4949] writes that commodity trading methods "that have proven profitable for years may be non-productive in recent markets. If this is your experience, you are not alone. According to *Managed Account Reports*, the average commodity fund was down 10% in the first quarter. Who's making the money? It seems that large commercials are (these are the interests who tend to hedge actual positions in commodities).

* *

The Canadian Edper Group, owned by the Bronfman's, is five times bigger than Olympia & York. Edper is a massive conglomerate of 500 private companies and 40 public companies with 100,000 employees and assets of $100 billion (Canadian). Because of O&Y's downfall, many are now worried about Edper. Said one analyst, "I'm very skeptical. The group's activities are highly leveraged toward commercial real estate. Given the negative outlook for that sector, bankers are becoming increasingly nervous about prospects for some of their key holdings." An omen: Stock in Edper Enterprises, the main holding company, was issued at $27.50 in 1989. It is now a little above 7 on the Toronto exchange. The paper loss, so far, for the two Bronfman brothers, Edward and Peter, is just under half a billion (EDward + PEter = Edper).

* *

A squib in the *Miami Herald* notes that almost unnoticed, Congress has voted itself tax-free pensions. Is that possible? If true, it's another outrage.

* *

My old buddy, Harry Schultz (the only true international man) writes, "I wish women were in charge of countries instead of men. They're far less aggressive, more cooperative, compromising, biologically peace-loving. The way men reach for weapons (clubs, guns, lawyers) instinctively, makes them unqualified for public office. Men had their chance and blew it. World is a mess. Give women a try!" Harry, I've been saying this for years. The mindless violence of the twentieth century is beyond comprehension, and men did it. I agree -- give the world to the women. Maybe they'd even balance the US budget (don't women keep the books in most homes?). Straws in the wind -- trend-setting California could do the unprecedented -- elect two women Senators this year, Diane Feinstein and Barbara Boxer. Beside these two, California is running a very long list of women for state and local offices. The May 27 *LA Times* headlines it, "Will 1992 Be the Year of the Woman?" My answer -- I sure hope so.

* *

Speaking of newspapers, the *NY Times* finally hit the number one spot as the largest metropolitan circulation paper -- 1.2 million daily, 1.7 million Sunday. Largest national circulation paper, the *WSJ* at 1.85 million a day, second is *USA Today* with 1.54 million a day. *LA Times* comes next with 1.1 million a day, then *Wash. Post* at 846,000 a day.

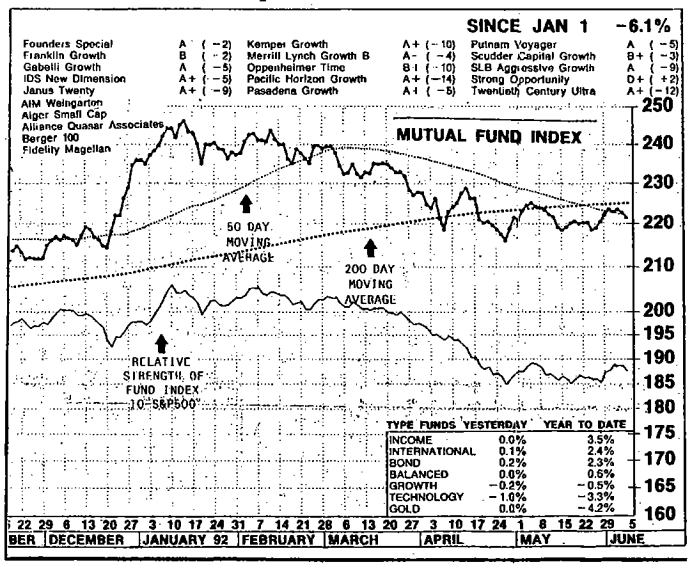
* *

I want to show the Mutual Fund Index again (courtesy of *Investor's Business Daily* -- page 6). This is an Index of 20 leading mutual funds, and since the public is so heavily in the funds, this Index gives us an excellent idea of what's been happening to the public's money.

Taken from the beginning of the year, the Mutual Fund Index has lost 6.1% of its value. Significantly, last week the 50-day moving average of the Index finally broke below the 200-day moving average. This constitutes a technical "sell signal" for the funds and it tells us that the pressure on the mutual funds is to the downside.

Remember, this Index represents a collection of 20 leading mutual funds, funds managed by some of the best and brightest market minds to be found anywhere. So what does this little recognized deterioration in the Mutual Fund Index tell me? It's telling me that under the guise of a Dow that is near its all-time high, I'm seeing

some of the subtlest distribution I've seen in 45 years of watching (I should say scrutinizing) markets. A slew of stocks have been hit, and hit hard. If the trend to deterioration continues, it's only a matter of time before it impacts on the Dow.


SINCE JAN 1 -6.1%
Founders Special A (-2)
Franklin Growth B (-2)
Gabelli Growth A (-5)
IDS New Dimension A+ (-5)
Janus Twenty A+ (-9)
AIM Weingarton
Alger Small Cap
Alliance Quasar Associates
Berger 100
Fidelity Magellan
Kemper Growth A+ (-10)
Merrill Lynch Growth B A- (-4)
Oppenheimer Time B (-10)
Pacific Horizon Growth A+ (-14)
Pasadena Growth A (-5)
Putnam Voyager A (-5)
Scudder Capital Growth B+ (-3)
SLB Aggressive Growth A (-9)
Strong Opportunity D+ (+2)
Twentieth Century Ultra A+ (-12)
MUTUAL FUND INDEX
50 DAY MOVING AVERAGE
200 DAY MOVING AVERAGE
RELATIVE STRENGTH OF FUND INDEX TO S&P500
TYPE FUNDS YESTERDAY YEAR TO DATE
INCOME 0.0% 3.5%
INTERNATIONAL 0.1% 2.4%
BOND 0.2% 2.3%
BALANCED 0.0% 0.6%
GROWTH -0.2% -0.5%
TECHNOLOGY -1.0% -3.3%
GOLD 0.0% -4.2%
250
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22 29 6 13 20 27 3 10 17 24 31 7 14 21 28 6 13 20 27 3 10 17 24 1 8 15 22 29 5
BER DECEMBER JANUARY 92 FEBRUARY MARCH APRIL MAY JUNE

* *

Words That Deserve to be Famous: The *Financial Times of London* quotes Sir Crispin Tickell, warden of Green College, Oxford, a climatologist and paleohistorian: "I don't think the climate is the biggest environmental hazard. I think human multiplication is."

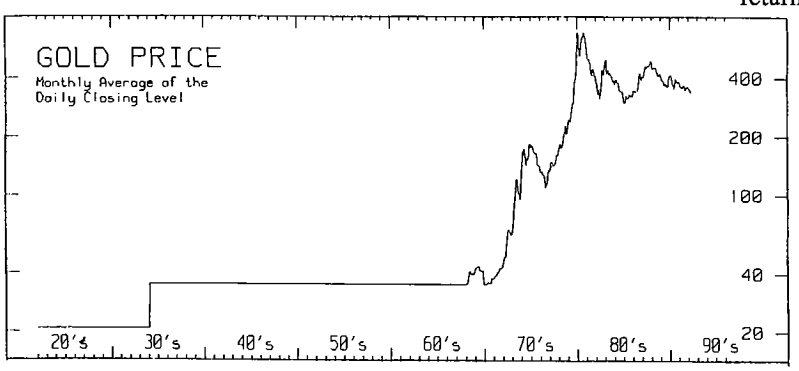
* *

In 1986 BMW sold 96,759 cars in the US. Last year they sold 53,343. Mercedes has been hit so hard that they are slashing lease prices up to one-third. What's happening? The recession, the luxury tax and last but not least, Japanese competition is hitting the German luxury car market. The new S-class Mercedes with huge prices are not selling well in the US, and in fact they are being outsold by the older models. The hot car in the luxury class is the Lexus -- its sales boomed to 71,000 a year, just two years after its introduction. The luxury tax slaps an extra 10% on any portion of a car's price over $30,000. On an $81,000 Mercedes 400SE, you're talking about an extra $5,100.

* *

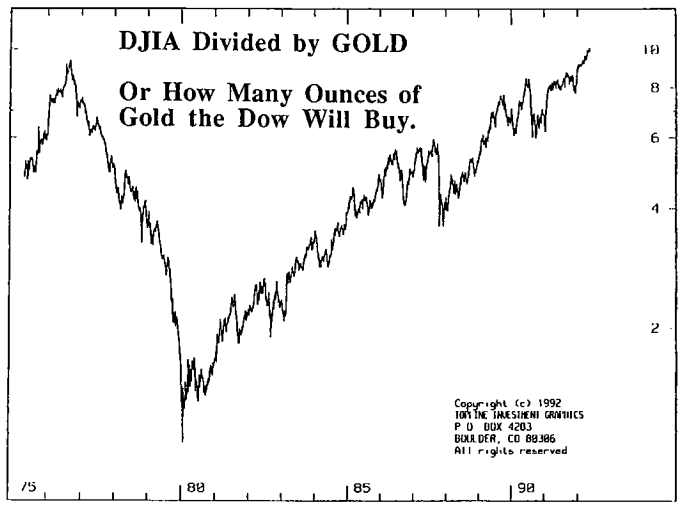
Two thirds of China's 1.1 billion people are under the age of 35. Rock music, modeling schools, stock markets, are now a fact of life in China. The old guard has decided that if they are to survive, capitalism is to be the mechanism. As I see it, China is the wild card in the world economy of the future. What we know is that the Chinese have a fierce work-ethic, they are shrewd businessmen, their average wage is 27 cents an hour, and they are moving rapidly, very rapidly into the modern industrial world. If 1.1 billion Chinese get mobilized and moving -- watch out! This, by the way, if why I think my subscribers should have a position in Hong Kong stocks (which is an entrance into the Chinese situation).

GOLD: Is inflation over? Is the degradation of paper money over? Not if the governments of the world can help it. Of course, the recent boost in oil prices happens to be inflationary. A rise in the price of oil sifts through the economies of the world and also puts a squeeze on corporate earnings. So the central banks always try to offset the squeeze by boosting their respective money supplies. And that's inflationary.



I asked computer whiz, John Carder (*Topline Investment Graphics*, PO Box 4283, Boulder, CO 80306) to run off a few charts for me last week, and here are two of them. The first is a ratio-scale (logarithmic) chart of gold going back to the 1920s, and I think it's an eye-opener. On a long-term basis, the whole gold collapse from the 1980 high to today looks like a huge consolidation (remember, this chart deals in percentages of change).

I asked John to run off a chart of the Dow divided by the gold price. Or, to put it another way -- how many ounces of gold the Dow would buy. Back in 1976 the Dow would buy roughly ten ounces of gold. Then the price of gold started climbing and by early 1980, with the Dow at 859 and gold over 850, the Dow would only buy one ounce of gold. A dramatic change in four years!



Then gold started to decline and the Dow started to rise. And today, lo and behold, the Dow again will buy roughly ten ounces of gold.

At no time during 1992 has gold been able to hold decisively above its 40-day moving average. The MA for the June gold contract now stands at 338. If June gold can get above 340, then 343, we'll have the beginning of an interesting picture for gold. Let's watch it.

The Russell conclusion: What we've been seeing since 1980 is an inflation in financial assets (stocks and bonds) and a decline in tangible assets (gold, silver, and more recently paintings, antique autos, stamps, collectibles, etc.). My feeling is that we're very near or actually at a major reversal point -- bear market in financial assets and a rise in tangible assets. today gold is too cheap, stocks are too expensive. So -- watch for a slow but steady drop in the Dow-to-gold ratio. But heaven help us if the ratio goes back to below one again -- as per 1980.

LATE NOTES: My friend, Ed Drcar of Paine Webber, just returned from a trip to Europe. He was angry -- said Europeans absolutely don't want dollars -- said they even charged to cash American Express checks! Russell comment: I continue to fear for the dollar, strongly suggest diversification into international bond funds . . . Meanwhile, the market struggles valiantly, the PTI still putting pressure on the upside, but with majority of stocks either hanging on or slipping . . . Washington continues to crank out optimistic statements and statistics, but Russell remains a sceptic. Point to remember -- US presidents don't get re-elected when the economy in the third quarter of an election year is flat or sinking. US politics is moving towards hysteria -- if the stock market sinks between now and election time Bush will be history. Wall Street, the CEO's and big investors in general are afraid of the unknown -- which Mr. Perot is.

NEXT MAILING: June 24, 1992